

Message Text

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21

ACTION NEA-10

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FM AMEMBASSY ALGIER

TO SECSTATE WASHDC 2940

C O N F I D E N T I A L ALGIERS 1865

E.O. 11652: GDS

TAGS: EFIN, AG

SUBJECT: ALGERIAN EURODOLLAR BORROWING

REF: ALGIERS 1713

1. ALGERIAN EFFORTS TO FLOAT SUBSTANTIAL LOAN ON EURODOLLAR MARKET APPEAR TO BE MAKING PROGRESS AGAIN AFTER DELAYS OVER PAST MONTH OR TWO (SEE REFTEL). WILLIAM WAINWRIGHT, ASSISTANT VICE PRESIDENT OF BANK OF AMERICA HAS BEEN IN ALGIER SINCE AUGUST 10 NEGOTIATING DETAILS OF LOAN AND GATHERING INFORMATION ON ALGERIAN FINANCIAL SITUATION. HE HAS BEEN PREOCCUPIED WITH TWO PROBLEMS:

(A) GUARANTEE - BANQUE EXTERIEUR D'ALGERIE AND BANQUE NATIONALE D'ALGERIE, THE PROSPECTIVE BORROWERS, WANT TO BORROW ON BASIS THEIR OWN CREDIT AND ASSETS. BOTH BANKS, HOWEVER, CAPITALIZED AT ONLY DOLS 30 MILLION EACH. LENDING BANKS UNDERSTANDABLY UNWILLING ACCEPT ASSETS OF BANKS AS SECURITY FOR LOAN IN RANGE OF DOLS 400 MILLION. WAINWRIGHT BELIEVES HE HAS WORKED OUT ARRANGEMENT WHERE LOAN TO BEA AND BNA WOULD BE BACKED BY "FULL FAITH AND CREDIT" OF ALGERIAN GOVERNMENT. THIS COMPROMISE APPEARS ACCEPTABLE TO BOTH SIDES, THOUGH ALGERIANS YET TO GIVE FINAL APPROVAL.
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(B) FINANCIAL INFORMATION - ALGERIANS HAD BEEN VERY RELUCTANT

DISCUSS BALANCE OF PAYMENTS DETAILS. HOWEVER, WAINWRIGHT BELIEVES THIS ATTITUDE HAS SOFTENED AND THAT HE HAS RECEIVED ENOUGH DATA TO CONVINCE PROSPECTIVE LENDERS OF ALGERIAN CREDIT WORTHINESS. WAINWRIGHT ACKNOWLEDGED, HOWEVER, THAT ALGERIANS CONTINUED TO EXPLAIN PRECIPITOUS FALL IN FOREIGN EXCHANGE RESERVES AS ENTIRELY DUE TO POLICY OF PREPAYMENTS AND CASH PAYMENTS FOR EQUIPMENT IMPORTS IN ORDER TO REDUCE BURDEN OF INFLATION. ALGERIANS ALSO WOULD NOT ACKNOWLEDGE RECEIVING ANY LOANS FROM PERSIAN GULF STATES AND POINT TO JUNE RISE IN FOREIGN EXCHANGE RESERVES AS EVIDENCE OF REVERSAL OF PREVIOUS DOWNWARD TREND.

2. WAINWRIGHT, WHO EXPECTS LEAVE ALGIERS AUGUST 22, BELIEVES THAT "FULL FAITH AND CREDIT" FORMULA, IF ACCEPTED, WILL PUT LOAN IN CATEGORY OF SOVEREIGN RISK, ATTRACTING ADDITIONAL LENDERS. ACCORDING WAINWRIGHT, PLAN IS THAT BY ABOUT AUGUST 28, MANAGING BANKS, BANK OF AMERICA AND FIRST NATIONAL BANK OF CHICAGO, WILL HAVE OBTAINED COMMITMENTS FROM 8 OTHER BANKS FOR DOLS25 MILLION EACH AND 10 BANKS FOR DOLS 10 MILLION EACH FOR TOTAL DOLS 350 MILLION. LOAN WOULD THEN BE PUT ON MARKET FOR PARTICIPATION BY ADDITIONAL SUBSCRIBERS.

3. WHILE NO PROMISES RECEIVED, WAINWRIGHT SAYS ALGERIANS HAVE INDICATED THEY DO NOT PLAN TO UNDERTAKE ANOTHER MAJOR BORROWING UNTIL MARCH, 1976, AT EARLIEST, IF CURRENT BORROWING PROCEEDS ACCORDING TO PLAN. PARKER

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